PRINCE EDWARD ISLAND

ENERGY CORPORATION

ANNUAL REPORT

1987-1988

BOARD OF DIRECTORS

Mr. Norman F. Stewart, Chairman

Mr. Frank Moran, Vice-Chairman

Mr. Robert Foster, Secretary-Treasurer

Mr. Tom Harland

Mrs. Mary Jane Cassidy

Mr. Doug Cameron

Mr. Bruce Lewis

The Honourable Allison Ellis
Minister, Department of Energy & Forestry
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Dear Mr. Minister:

I have the honour to present to you the attached annual report of the Prince Edward Island Energy Corporation for the year ending March 31, 1988. This report has been prepared and is submitted in accordance with the Energy Corporation Act, Section 10 (1).

Respectfully submitted,

Norman F. Stewart
Chairman of the Board of Directors

1.0 INTRODUCTION

This is the ninth annual report of the P.E.I. Energy Corporation and covers the period April 1, 1987 to March 31, 1988. The Energy Corporation was established by the Energy Corporation Act which was proclaimed on December 9, 1978.

The objectives of the Energy Corporation are to develop and promote energy systems on an economic and efficient basis and to coordinate all government programs in the establishment and application of energy systems in the Province.

The Corporation operates within the general framework of provincial energy policy which is the responsibility of the Minister of Energy and Forestry.

2.0 BOARD OF DIRECTORS

The members of the Board of Directors and their terms of office as of March 31, 1988 were as follows:

Norman F. Stewart, Chairman, March 26, 1987—March 26, 1990
Frank Moran, Vice-Chairman, March 26, 1987—March 26, 1990
Robert Foster, Sect'y-Treas., July 10, 1986—July 10, 1989
Tom Harland, October 1, 1987—October 1, 1990
Mary Jane Cassidy, December 10, 1987—December 10, 1990
Bruce Lewis, December 10, 1987—December 10, 1990
Doug Cameron, October 21, 1986—October 21, 1989

The following Directors retired during the year:

G. Douglas Dennis
James Burleigh
Don Gillis

3.0 STAFF

R.J. Brandon is the General Manager and Dr. John te Raa is the Operations Manager of the Corporation. David Godkin is a staff engineer whose principal activity is to assist in the construction, supervision and operational monitoring of the Corporation's projects. The Corporation's bookkeeping had previously been contracted out to an accounting firm. Because of the increasing level of activity, Mrs. Joan Robinson was hired as a part time bookkeeper and the Corporation's books transferred to an in-house micro-computer system. This system is a significant improvement over the previous arrangement at the same cost.

4.0 SUMMARY OF ACTIVITIES

Low oil prices continued to inhibit the use of local fuels and decrease overall interest in energy conservation activities. However, in spite of this and by trying various ways to lower equipment capital costs and fuel costs, the Corporation continued to implement a number of significant projects.

In April, 1987 a decision was made to install Phase 1 of the U.P.E.I. District Heating System. This Phase saw a district heating line to four buildings north of the University including the Charlottetown Mall and the conversion of the University steam distribution system to hot water. A major construction problem occurred at the University when a welder's torch ignited foam material during construction of the piping system in the University's underground tunnel system. This was corrected, after some delay, by the installation of a sprinkler system. The buildings of this Phase were heated from the system in December 1987.

By combining wood boiler installations in four large schools and two hospitals into a single project, it proved possible to reduce the capital cost of wood fuelled boiler installations for the West Prince area of P.E.I. This project, estimated to cost $1.81 million, was announced by the Minister of Energy in O'Leary on June 9, 1987. Another objective of the Corporation was realized in that the fabrication of the boiler equipment was carried out at Georgetown Shipyard. All the heat exchangers for the University district heating system were also manufactured at Georgetown.

The operating contract with Tricil Limited was extended for two years and the Corporation negotiated a reduction in Tricil's operating fee to $75,000. The low oil price has reduced the revenue received from the Queen Elizabeth Hospital which has been balanced to some extent by an increase in the tippage fee received from Community and Cultural Affairs.

The Corporation continued to act as a broker purchasing wood fuel from a number of sources and selling it to institutions such as Public Works and U.P.E.I. During the period covered by this report 16,700 tonnes of wood chip fuel was used in P.E.I. together with 30,700 tonnes of municipal waste. Together these fuels replaced 6.5 million liters of light fuel worth $1.4 million.

The developing expertise of the Corporation in the area of district heating was recognized when Energy, Mines & Resources asked the Corporation to manage a U.S. $85,000 contract for the International Energy Agency. Staff members also presented invited papers at two conferences on wood fired boiler and district heating technologies.

4.1 ENERGY FROM WASTE PLANT

The Energy from Waste (EFW) Plant consumed 30,700 metric tonnes of municipal waste in 1987-88 and sold 33.1 million kg of steam to the Queen Elizabeth Hospital (QEH). This steam is estimated to have displaced about 2.9 million litres of light fuel oil worth $580,000.

During this year negotiations took place between Tricil Limited and the Corporation over the extension of the operating contract for the EFW Plant that is due to expire in April, 1988. The extension for two years was signed on June 29, 1987. A reduction of the management fee charged by Tricil for its professional services was negotiated from $101,400 to $75,000, in light of the reduction in steam sale revenue.

The contract held by the Corporation with the QEH for the sale of steam is tied to the price of light fuel oil which has declined substantially in recent years. A renegotiation of the charge for the disposal of waste was made between the Corporation and the Department of Community and Cultural Affairs. Based on tippage fees in Nova Scotia and the North Eastern United States, it was determined that a cost of $25/tonne would be a fair disposal cost and this amount would be charged during the 1988-89 fiscal year.

In June, 1987 the 180 KW backpressure turbine was put into operation at the EFW Plant. During the period June 1987 - March 31, 1988 it produced 447,000 kW.h of electricity worth $36,000.

An assessment of the plant operations was commissioned in September 1987 from Mr. Joe Kennedy of Waste Conversion Inc. Mr. Kennedy was the principal designer of the EFW Plant when he was working for Tricil. His report stated that the plant had been well maintained and run and deserved its high reputation as one of the most successful plants of its type in North America. He noted that the plant was fully loaded, especially during the peak summer months when waste volumes increase during the tourist season. His concerns have been addressed by the Corporation and the Department of Community & Cultural Affairs by re-directing certain waste streams to landfill during high peak periods.

During the year, it was necessary to carry out some major maintenance projects. This included the purchase of a Hough Loader to replace a Case loader and the start of a two year program to replace the incinerator's refractory liners which have exceeded their expected life. These major maintenance costs totalled $120,000 in this fiscal year.

4.2 PILOT DISTRICT HEATING PROJECT

This project is based on the 1.8 MW wood boiler located at the Prince Edward Home. A hot water district heating network connects this boiler plant to the Provincial Administration Building and thirteen buildings along Kent Street in Charlottetown. During this year the system continued to operate well and the customers expressed satisfaction with the concept of district heating. St. Peter's Cathedral converted their steam distribution system to hot water to become totally supplied by district heat and the Charlottetown Hotel converted its ground floor and first floor also to hot water heating. The operational statistics of the system are shown in Table 1. The Department of Transportation and Public Works carried out repair work on the boiler room stack and also carried out refractory work on the KMW wood boiler fuel cell during the year. The Department owns and operates the boiler room, the Corporation purchases heat from the Department and resells it to the district heat consumers.

U.P.E.I. BLOCK CENTRAL HEATING

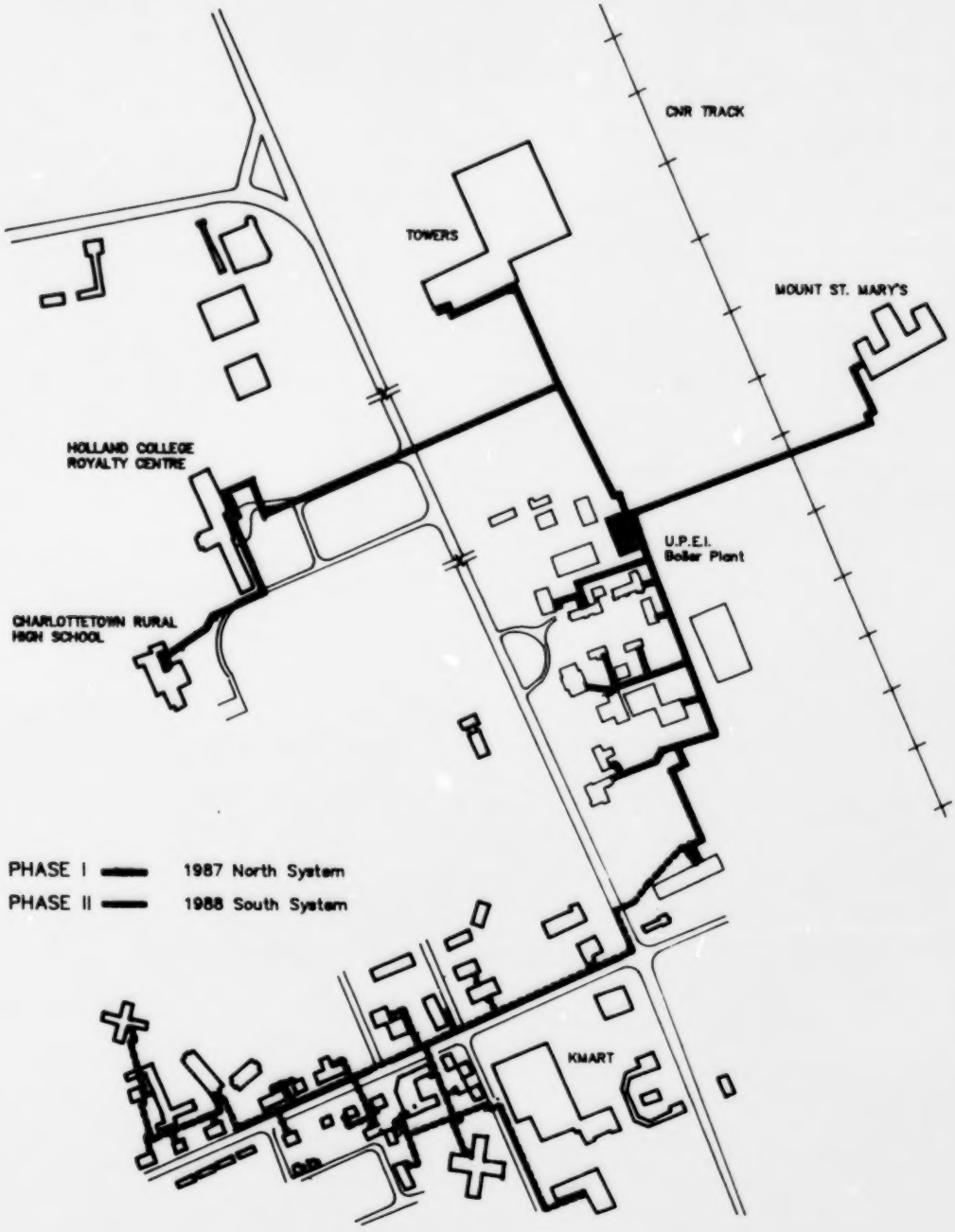

TABLE 1
PILOT DISTRICT HEATING PROJECT
OPERATING STATISTICS

	Oct. '86 - Mar. '87	Apr. '87 - Mar. '88
Total Boiler Output (MW. h)	10,068	13,694
Wood Fuel Used (tonnes)	2,542	4,702
Oil Fuel Used (liters)	617,984	994,768
The heat was distributed as follows:		
Prince Edward Home and Provincial Administration Buildings	72%	67.3%
Pilot District Heating Buildings	25%	28.7%
Pipe Losses	3%	4%

4.3 UNIVERSITY DISTRICT HEATING SYSTEM

On the 10th of March, 1987 the Board of Governors of the University of Prince Edward Island approved the concept of a district heating system based on the wood boiler located at the University's boiler plant. The Corporation agreed to convert the University's aging steam distribution system to a modern hot water system, install heat exchanger substations in each building of the University and install a peaking oil boiler in the University boiler plant. In return, the University agreed to the Corporation purchasing thermal heat energy from the University at its cost of production and distributing this heat by means of a district heating system to institutions and businesses nearby. All energy savings that would result at the University would be paid to the Corporation for the first five years of the project as a way of amortizing the cost of the capital investment at the University.

A schematic showing the project scope is shown as Figure 1. Construction is planned to be carried out over two years. During this fiscal year Phase 1 of the project would see the installation of the new boiler, heat exchangers and circulating pumps at the University boiler plant. A pipeline would be laid across University property to the Charlottetown Mall and under the Trans Canada Highway to Holland College and the Charlottetown Rural High School. Insulated pipes were also installed in the University's utility tunnel system.

The installation contracts were awarded to the low bidder, Steen Contractors. The pipe material was purchased directly by the Corporation following a bid process from several manufacturers and the order was awarded to Brown Boveri Canada for pipe material supplied by I.C. Moller of Denmark. Heat exchangers were supplied by ELGE but manufactured by Georgetown Shipyard under license from the Swedish company. A refurbished Foster Wheeler D-type boiler was supplied by Arctic Combustion.

An innovative feature of the design was to install the pipeline pre-heated. That is the pipeline, once welded together, was filled with water heated to 70° C. The line across to the Charlottetown Mall then expanded by over a meter. The trench was then backfilled with earth thus fixing the pipeline under earth friction forces. This technique reduced the installed cost of the line by not requiring expansion elbows and loops in the pipeline.

In August the boring was carried out under the Trans Canada for the pipeline to Holland College and all outside pipe installations were completed by late November. On Friday, October 23rd a fire incident occurred in the University tunnel that required the evacuation of a number of buildings. The problem was caused by a welder igniting some foam chippings, the fire then spread to the polyurethane foam insulation of the insulated pipe. The incident was investigated both by the Charlottetown Fire Inspector and Professional Loss Control, a firm of fire protection engineers. Their recommendation was that the pipeline installation in the University tunnel system should be protected by a sprinkler system. This incident delayed the completion and startup of the University system. However, the outside customers of Phase 1 were heated from the University during January. The system has performed well during the balance of the heating season.

While the construction of Phase 1 was underway, the potential customers for Phase 2 were contacted. Response was good, so design of Phase 2 was finalized by the engineers, AFE Engineering Inc. and CBCL Limited. Tenders were called in November for Phase 2 and the pipeline installation and large substation installations were awarded to D.B.&J. (1971) Ltd. A second substation contract for the smaller installations was awarded to Blair LaPierre. Tender prices for both Phase 1 and Phase 2 are shown in Table 2. The timing of the tender award was such that pipe material could be ordered and shipped over the winter and installation of the heat exchanger substation could occur over the normally slow late winter period.

The design and installation of this project has required substantial effort and co-operation by the Boiler Inspection Branch of the Department of Labour in order to ensure that the predominantly European design practices were consistent with Provincial Legislation requirements. The co-operation and assistance of the Chief Boiler Inspector, Mr. Miller West, is gratefully acknowledged. By the winter of 1988-89 the whole project should be complete. It will be the largest municipal hot water district heating system in Canada and the only one that uses wood fuel. Potential spin-off benefits to P.E.I. include manufacturing and distribution rights to materials such as insulated pipe, heat exchangers and heat meters which may form the basis of a small Island industrial effort.

TABLE 2
U.P.E.I. PROJECT BUDGET

	Phase 1 contracts	Phase 2 contracts	Total contracts
Pipe Material & Installation	$1,007,948	$934,735	$1,942,683
Substation Material & Installation	498,196	532,000	1,030,196
Boiler Plant Conversion	623,833		623,833
Engineering	146,425	170,000	316,425
Contingency	100,000	200,000	300,000
			$4,213,137

4.4 WEST PRINCE PROJECT

On April 14, 1987 it was decided at a Board Meeting of the Corporation to proceed with a project to install six wood fired boilers in Prince County. These systems are to be located at the sites listed in Table 3 together with their boiler sizes and expected wood fuel use. Competitive bids were received from Sylva Energy Systems, KMW Ltd. and Trent Ltd. The Board selected the low bid of $1,816,000 for a turnkey installation from Sylva based on price and technical evaluation. A tender call for wood fuel resulted in a low bid of $25/tonne from La Coopérative Forestière Ltée using sawmill waste from the new mill at St. Chrysostome. Construction of the underground silos and erection of the buildings to house the units took place over the summer of 1987. MacMillan Construction Ltd. was sub-contracted by Sylva for this work. Fabrication of the boiler plant at Georgetown took longer than anticipated with the first unit being delivered to Westisle on the 15th of February, 1987 and the rest being installed before March 31st. In view of the late delivery of the equipment it is anticipated that the Agreement between the Corporation and the School Units and Hospitals will be extended for one year to allow for two complete heating seasons before the equipment is turned over to the institutions. The installed cost of each system is significantly lower than recent Nova Scotia installations of similar sized equipment. This is due to the factory assembly of the boiler systems and the fact that engineering and supervision cost could be amortized over a number of projects.

TABLE 3
MAJOR SITES USING WOOD CHIP FUEL

Location	Wood Boiler Size (KW)	Annual Wood Fuel Use (tonnes)	Oil (liters) Displacement (a)	Years of Operation
West				
Wedgewood Manor	400	560	123,200	3
Centre d'Education Evangeline	400	480	105,600	3
West Prince Project				
M.E. Callaghan	450	(710)	(156,200)	Startup '88
Hernewood	450	(610)	(134,200)	Startup '88
Westisle	800	(850)	(187,000)	Startup '88
O'Leary Elementary School & Hospital	450	(550)	(121,000)	Startup '88
Three Oaks High School	800	(800)	(176,000)	Startup '88
Western Hospital	450	(710)	(156,200)	Startup '88
		1,040	228,800	
Central				
Sleepy Hollow Correctional Centre	400	369	81,180	3
Beach Grove Home	700	587	129,140	2
U.P.E.I./DH	3,800	6,500 (12,000)	1,430,000	1
Prince Edward Home District Heating	2,000	4,702	1,034,440	3
EFW Plant		187		5
		12,345	2,674,760	
East				
Morell High School	300	300	66,000	1
Montague Sr./Jr. H.S.	700	630	138,600	1
Kings Co. Mem. Hosp.	900	1,940	426,800	6
Souris Sr. H.S.	500	475	104,500	2
		3,345	735,900	
Provincial Total		16,730	3,639,460	

a) Figures in brackets are expected annual volumes.

4.5 OTHER PROJECTS

4.5.1 ENERTECH WINDMILL

The Corporation owns a 40 kW Windmill that has been erected in Bunbury and supplies power to the Bunbury-Southport Pollution Control Commission. During this fiscal year the unit was due to be purchased by the Utility and negotiations were underway whereby the ownership would be transferred. However, on November 12th a wind storm hit Charlottetown with wind speeds exceeding 100 km/hr. A series of failures occurred resulting in the windmill gearbox being severely damaged. The first failure was that a three-cup annemometer lost a cup thus signalling a lower than actual wind speed. Normally the windmill would have been automatically shut down. Due to this failure and the failure of the automatic braking system, the machine oversped before the gearbox failure brought it to rest. It was decided mutually by the Corporation and the Commission to relocate the machine at the Atlantic Wind Test Site to obtain two years of reliability testing before relocating it at Bunbury.

4.5.2 VARIABLE SPEED DRIVE—PRINCE EDWARD HOME

As a collaborative effort with Energy, Mines & Resources Canada, an electronic control system was installed at the Prince Edward Home to vary the speed of the 60 H.P. district heating pump. Under existing operation the pump will run at constant speed using 204,100 kW.h of electricity per year. The installation of a variable speed drive which slows the pump down during periods of low heating demand will reduce the electricity consumption by a factor of 62%. The capital cost of the system was estimated at $26,290 and a federal grant for the project was obtained of 50% of the capital cost.

4.5.3 SOURIS HOSPITAL—WOOD BOILER

During the year Dr. John te Raa worked with the engineers and the administration of the new Souris Hospital to complete the design of a wood fired boiler for the new building. A turnkey offer of $190,000 from Sylva was chosen using the same design of equipment that is being installed in Prince County. The unit was installed in February of 1987 and will be fired for the 1988-89 heating season.

4.6 WOOD FUEL SUPPLY

The Corporation continues to act as a wood fuel broker in order to expedite the delivery of wood fuel to provincially owned institutions. Contracts are held with Bulk Carriers Ltd. and Larsen's Sawmill for material. The current market for wood fuel is only large enough for one major Supplier although projects under consideration (see 5.1) will require several new contractors in this business. Consideration is being given to extending existing contracts for a number of years at constant fuel volumes and prices to give some stability to the market until new wood fuel demand requires new contracts. The volume of wood fuel used at the major sites in the Province is shown in Table 3.

4.7 SPECIAL PROJECTS

The Corporation spent $207,620 for projects relating to forestry operations on Crown Lands. There were 63 people employed in thinning and clearing activities. Of the budget, $164,000 was spent in wages. The project was managed by the Department of Energy and Forestry on behalf of the Corporation and funds were accounted for under the Provincial Financial Information System.

5.0 PROJECTS UNDER DEVELOPMENT

5.1 CHARLOTTETOWN DISTRICT HEATING SYSTEM

Discussions with Maritime Electric revealed that the utility and the province will have to purchase additional base load power capacity to meet the increasing electrical consumption in P.E.I. Maritime Electric and the Corporation co-sponsored a study that started in September, 1987 and is expected to be completed in the next fiscal year. The study will examine the feasibility of a range of wood and combination wood/oil generation options combined with a district heating system in Charlottetown. The increase in fuel efficiency of the cogeneration system is expected to compensate for the higher capital cost of the wood fuelled boiler system. Draft results in March 1987 suggest that a 15 MW electric power plant serving a district heating system and using about 75,000-100,000 tonnes of wood annually would generate power at a levelized price competitive with a mainland coal fuelled unit. Further examination of this large scale project is expected to continue in the next fiscal year.

5.2 SUMMERSIDE DISTRICT HEATING SYSTEMS

A number of studies were carried out to determine the feasibility of district heating for the Town of Summerside using either a wood-fired plant or waste heat from the exhaust of the Town's diesel plant. Further examination of this project may be warranted depending on alternative power costs from mainland base load power plants that may be purchased to meet the Island's capacity requirements.

6.0 FINANCIAL STATEMENT

The financial statement prepared by our duly appointed auditors follows:

AUDITORS' REPORT

To the Directors of
Prince Edward Island Energy Corporation

We have examined the balance sheet of Prince Edward Island Energy Corporation as at March 31, 1988 and the statements of income and surplus — operating and capital projects for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at March 31, 1988 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Beaton, Fitzpatrick

Beaton, Fitzpatrick

June 2, 1988

PRINCE EDWARD ISLAND ENERGY CORPORATION
BALANCE SHEET
FOR THE YEAR ENDING MARCH 31, 1987
ASSETS

	March 1988	1987
Current Assets		
Cash	$ 10	$ 239,108
Term deposits	3,758	3,235
Accounts receivable	1,161,752	454,140
Holdback receivable	220,902	68,483
Accrued interest receivable		1,080
Project under development	4,960,584	267,253
	6,347,006	1,003,299
OTHER ASSETS		
Mortgage receivable (note 1)		9,000
PROPERTY, PLANT AND EQUIPMENT (note 2)		
Fixed assets	12,022,730	12,010,794
Accumulated depreciation	160,256	63,077
	11,862,474	11,947,717
	$18,209,480	$12,990,016
LIABILITIES AND SURPLUS		
CURRENT LIABILITIES		
Bank indebtedness (note 3)	$ 3,119,420	$1,398,702
Promissory note - Province of Prince Edward Island	1,000,000	
Accounts payable and accrued liabilities	1,254,529	764,923
Deferred revenue - debt retirement grant	49,903	49,903
Deferred revenue - project under development	2,348,674	
Principal due within one year on long-term debt	83,213	51,167
	7,855,739	2,264,695
LONG-TERM DEBT (note 4)	6,613,040	6,623,833
SURPLUS		
Surplus-operating	323,381	320,203
Deficit-capital projects	2,035,305	1,706,354
Capital-(note 5)	5,452,625	5,487,639
	3,740,701	4,101,488
APPROVED BY THE BOARD:	$18,209,480	$12,990,016

_____Director

_____Director

PRINCE EDWARD ISLAND ENERGY CORPORATION
STATEMENT OF INCOME AND SURPLUS — OPERATING
FOR THE YEAR ENDED MARCH 31, 1988

	Year ended March 31 1988	1987
Revenues		
Grants - Province of Prince Edward Island	$407,863	$533,959
Bunbury Southport Pollution Control Commission		1,526
Sale of wood	394,958	382,681
Rent of wood chipper (net)		(97)
	802,821	918,069
Expenses		
Projects	58,573	92,314
Wood	387,675	367,479
Administration		
Audit	4,500	4,375
Bad debts		17,000
Consulting	126,741	189,375
Directors' honorarium	16,160	19,487
Materials and supplies	1,213	1,938
Miscellaneous	10,110	9,930
Office equipment	11,238	2,681
Office supplies	1,381	1,736
Telephone	8,165	9,626
Travel	9,667	10,280
Wages and levies	164,220	151,017
	799,643	877,238
NET INCOME (loss)	3,178	40,831
Surplus at beginning of year	320,203	279,372
SURPLUS AT END OF YEAR	$323,381	$320,203

PRINCE EDWARD ISLAND ENERGY CORPORATION
STATEMENT OF INCOME AND DEFICIT
— CAPITAL PROJECTS

	Year ended March 31 1988	1987
Revenues		
Sale of steam	$ 873,635	$790,585
Tippage fees	294,000	303,008
Interest and other	1,825	2,442
Province of P.E.I. - special warrant	661,000	
Sale of scrap metal		653
	1,830,460	1,096,688
Expenses		
Bad debts	699	
Depreciation	97,179	63,077
Fuel	145,558	51,889
Insurance	7,700	
Interest	984,211	821,282
Management	85,990	101,376
Maintenance	28,855	2,803
Operations	952,613	710,955
Property taxes	83,250	76,376
	2,386,055	1,827,758
Operating loss	555,595	731,070
Other - debt retirement grant	135,700	101,797
- amortization of capital grant	35,014	22,727
- reallocated to uncompleted projects	55,930	
	226,644	124,524
NET LOSS	328,951	606,546
Deficit at beginning of year	1,706,354	1,099,808
DEFICIT AT END OF YEAR	$2,035,305	$1,706,354

PRINCE EDWARD ISLAND ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 1988

GENERAL

The corporation is a Crown corporation established by the Energy Corporation Act and its principal activities are to develop and promote energy systems.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Projects under development

The net surplus or deficit from incidental revenue earned during the project construction phase is capitalized as part of the cost of the project.

Property, plant and equipment

Minor fixed assets are retired out of operating grants and revenues and expensed in the statement of income and surplus - operating, in the period of acquisition.

Major fixed assets remaining the property of the Prince Edward Island Energy Corporation are transferred to the fixed asset accounts from projects under development when such projects are complete.

Depreciation has been provided on fixed assets in accordance with principal payments on long-term debt.

It is the corporation's policy to expense replacement assets for the Energy from Waste Plant in the year of acquisition.

Interest capitalization

The corporation has adopted the policy of capitalizing interest incurred to finance the construction of major projects.

1. MORTGAGE RECEIVABLE

	1988	1987
13%, second mortgage, interest due on July 31, 1986 and 1987 and 1/3 of the principal plus interest due on July 1, 1988 and the next two years	$17,000	$17,000
The mortgage is secured by a wood fired boiler		
12%, mortgage, payable in equal annual principal installments of $3,000. Plus interest		9,000
The mortgage is secured by land		
	17,000	26,000
Less allowance for doubtfuls	17,000	17,000
	$ Nil	$9,000

2. PROPERTY, PLANT AND EQUIPMENT

	1988			1987
	Cost	Accumulated depreciation	Net	Net
Waste burning plant	$10,079,441		$10,079,441	$10,079,441
District heating	1,943,289	$160,256	1,783,033	1,868,276
	$12,022,730	$160,256	$11,862,474	$11,947,717

3. BANK INDEBTEDNESS

Bank indebtedness is secured by a guarantee from the Province of Prince Edward Island to a maximum of $3,900,000.

During the year ended March 31, 1988, interest costs incurred on the operating loan totalled $197,230. This interest has been accounted for as follows:

Capitalized to uncompleted projects - West Prince	$12,650
- Turbine	9,350
Capitalized to uncompleted projects - U.P.E.I. through reallocation of revenues and expenses	32,998
Expensed on Energy from Waste operations	142,232
	$197,230

4. LONG-TERM DEBT

	1988	1987
12% debenture, payable interest only to 1993 with equal principal and interest installments commencing in 1993 to amortize the balance over a ten year period	$5,500,000	$5,500,000
10 1/4% debenture, payable in principal and interest installments commencing in 1987 to amortize the balance over a ten year period	773,853	825,000
9 1/4% promissory note		350,000
9 3/4% debenture, payable in principal and interest installments commencing in 1988 to amortize the balance over a ten year period	422,400	
	6,696,253	6,675,000
Principal included in current liabilities	83,213	51,167
	$6,613,040	$6,623,833

Principal due within each of the next five years is approximately as follows:

1989	$88,993
1990	97,980
1991	107,876
1992	118,772
1993	130,769

5. CAPITAL SURPLUS

The corporation has adopted the policy of capitalizing those funds received in financial support of the capital cost of fixed assets. The surplus is being amortized to income on the same method that depreciation is provided on the related assets.

AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Prince Edward Island Energy Corporation
Charlottetown, Prince Edward Island

The audited financial statements of the corporation and our report thereon are presented in the preceding section of this report. The following information is presented for purposes of additional analysis and is not required for a fair presentation of the financial position or results of operations of the corporation. Such information has been subjected to the audit procedures applied in our examination of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

June 2, 1988

Beaton Fitzpatrick

PRINCE EDWARD ISLAND ENERGY CORPORATION
SCHEDULE OF PROJECT COSTS

	Year ended March 31	
	1988	**1987**
Renewable Energy Initiatives	$58,573	$83,984
Montague Senior High School		2,195
Other		6,135
	$58,573	$92,314

PRINCE EDWARD ISLAND ENERGY CORPORATION
SCHEDULE OF INCOME AND EXPENSES—CAPITAL PROJECTS

	Year ended March 31 1988				1987
	U.P.E.I.	Energy from Waste	District Heating	Total	Total
Revenues					
Sale of steam	$89,791	$653,145	$130,699	$873,635	$790,585
Tippage fees		294,000		294,000	303,008
Interest & other		1,825		1,825	2,442
Province of P.E.I. special warrant		661,000		661,000	
Sale of scrap metal					653
	89,791	1,609,970	130,699	1,830,460	1,096,688
Expenses					
Bad debts			699	699	
Depreciation			97,179	97,179	63,077
Fuel	72,020		73,538	145,558	51,889
Insurance	5,700		2,000	7,700	
Interest	65,858	802,232	116,121	984,211	821,282
Management		85,990		85,990	101,376
Maintenance	2,143		26,712	28,855	2,803
Operations		952,613		952,613	710,955
Property taxes		83,250		83,250	76,376
	145,721	1,924,085	316,249	2,386,055	1,827,758
Loss from Operations	55,930	314,115	185,550	555,595	731,070
Other					
Debt retirement Grant			135,700	135,700	101,797
Amortization of Capital grant			35,014	35,014	22,727
Reallocated to uncompleted projects	55,930			55,930	
Net Loss	$Nil	$314,115	$14,836	$328,951	$606,546

7.0 ACKNOWLEDGEMENTS

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